

RETAIL CLASSIFICATION

To better serve you, the Arizona Department of Revenue offers online assistance and filing of your business taxes. To register to use the site and to file your taxes online, go to www.AZTaxes.gov.

This publication provides general information about transaction privilege tax on retail sales. The Arizona transaction privilege tax is a tax on the privilege of doing business in Arizona. The transaction privilege tax is imposed on persons engaged in the business of making retail sales by Arizona Revised Statutes (A.R.S.) § 42-5061. For complete details, refer to this statute and Title 15, Chapter 5 of the Arizona Administrative Code (A.A.C.) (Links to access these laws, as well as rulings and procedures on specific retail topics, are available on the department's website.) In case of inconsistency, error, or omission in this publication, the language of the Arizona Revised Statutes and the Arizona Administrative Code will prevail.

Who Must Pay

In Arizona, it is the seller who owes transaction privilege tax to the state. This is true whether or not the seller added transaction privilege tax to the price of the item sold. However, the seller is entitled to pass the burden of the tax on to the purchaser.

You Owe Transaction Privilege Tax If...

You are in the business of selling tangible personal property and the customer has not provided a valid exemption certificate or other documentation to establish an exemption from the tax.

What is the Tax Rate and How Do I Pay?

The current combined state and county tax rates for retail sales can be found in the *Arizona State, County and City Transaction Privilege and Other Tax Rate Tables* under Business Class Code 017. For ease of reporting, state and county rates are combined on the state's tax rate tables. City tax is reported separately.

Factoring Transaction Privilege Tax

When a business "factors" transaction privilege tax, it means the tax is included in the total price rather than shown as a separate charge. If you choose to factor the tax, the tax must be calculated using a factoring formula. There are many different factoring formulas depending on city taxes, county taxes or differences in allowable city tax deductions. See Arizona Transaction Privilege Tax Procedure TPP 00-1 for information about factoring.

Special Situations

1. Sales for Resale

When you sell an item to a customer who plans to rent or resell it in the normal course of business, you may not owe tax on that sale. You must have a clear

and complete record of these sales or you will be taxed for them. Your records must separately show figures for retail sales and sales-for-resale. Sales-for-resale may be documented by using an exemption certificate prescribed by the department. See Transaction Privilege Tax Procedure TPP 00-3. You are not required to use the form recommended by the department, but you should have the following information for each sale-for-resale: the property sold, the buyer's name and address, the buyer's transaction privilege tax number and a signed statement by the buyer stating that the goods will be resold in the ordinary course of business.

Remember, without complete records, all your sales are subject to tax. If you are a wholesaler and make recurring sales-for-resale to the same customer, you may accept a certificate with the "Period" box checked and the stated period specified "through" a definite date agreed to by both parties.

2. Services

If you operate a service business, for example an accounting business, income from that business is normally exempt from retail transaction privilege tax.

3. Casual Sales

Casual sales are not taxable. In a service business, an item may be sold on a casual basis. For example, an accounting business may occasionally sell a reference book to a client. However, if you regularly make sales and/or maintain an inventory of tangible items for sale, you are engaged in retail sales and are liable for transaction privilege tax on those sales. If, on a regular basis, you sell items at swap meets, craft fairs, etc., you owe transaction privilege tax and must obtain a license even if you consider your sales a part of a "hobby".

4. Trade-ins

If you take a trade-in for partial payment on a retail sale, you owe transaction privilege tax on the difference between the selling price and the trade-in amount.

5. Installation Labor Charges

Charges for installation labor on items that are not to be attached to real property are exempt from tax. You must clearly show charges for retail labor separately, on customer invoices and in your records, to qualify for this deduction from gross income. Otherwise, you will owe tax on the total invoice where parts and labor are not separately stated. The sale and installation of property that is permanently attached to real property, such as a new roof, is taxable under the prime contracting classification. See Publication 603, Contracting Activities.

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6. Federal Manufacturer's Excise Tax

You may deduct the federal excise tax imposed on the sale of an automobile, heavy trucks and trailers, or use fuel from gross receipts before calculating the transaction privilege tax.

7. Bad Debts

A deduction is allowed for bad debts which were previously reported as taxable sales under the accrual method of reporting. Refer to A.A.C rule R15-5-2011 for information about the deduction for bad debts.

8. Freight

When included in the retail sales price, a shipping charge from the manufacturer or wholesaler to the retailer is considered a cost of doing business and is included in the taxable proceeds from the sale. If goods are shipped directly from the manufacturer or wholesaler to the *purchaser*, a charge for freight may be excluded from taxable gross proceeds if separately stated. Actual freight charged by the retailer to deliver goods to the purchaser is not taxable under the retail classification if separately stated on the invoice.

9. Common Exemptions

Sales of the following items are not subject to the state's transaction privilege tax or related county excise taxes, providing that a retailer obtains the correct documentation (usually an exemption certificate):

- a. Items sold for resale are exempt, including sales to rental businesses that plan to rent the property. (See special situation #1 above.)
- b. Items sold through a casual sale are exempt. (Refer to A.A.C. rule R15-5-2001.)
- c. Food sold for home consumption is exempt from transaction privilege tax when sold by a qualified retailer. (See A.A.C. rule R15-5-1860.) Any item that can be bought with food stamps, or food instruments issued under the Child Nutrition Act, is exempt from transaction privilege tax when purchased from a qualified retailer. (See Publication 575, Tax Exempt Food).
- d. Food sold to restaurants that the restaurant serves to customers or provides free to employees while they are on the job. The restaurant's sale of food to customers is taxable under the restaurant classification.
- e. Food, condiments and related items may be exempt if sold to the following groups:
 1. Private or parochial schools for grades twelve and under.
 2. Licensed day care or group care facilities, including facilities that provide regular care for persons who are unable to care for themselves

3. Nonprofit organizations that provide food at no cost, or at a nominal fee.

4. Prisons, jails, or similar institutions under the jurisdiction of the State Department of Corrections, Department of Public Safety, the Department of Juvenile Corrections or a County Sheriff.

- f. Separately stated charges for warranty and service contracts, but parts used in fulfilling these contracts are subject to tax.
- g. Items sold to qualified licensed health care institutions (nursing homes, etc.).
- h. Items sold to qualified hospitals operated exclusively for charitable purposes, or run by the Federal government, the state government, or their political subdivisions.
- i. Medically prescribed drugs, eyeglasses, contact lenses, oxygen and related delivery system equipment and prosthetic appliances. Insulin, insulin syringes, glucose test strips and certain hearing aids, are also exempt.
- j. Certain durable medical equipment which is prescribed by a licensed medical professional if the equipment has a federal health care financing administration common procedure code, is not useful to a person in the absence of illness or injury and is designated as reimbursable by Medicare.
- k. An item sold to a non-resident for use outside Arizona when the business ships or delivers the item outside Arizona.

Note: Most cities subject this transaction to tax. Sales made in foreign commerce that are shipped directly to a destination outside the United States for use in that foreign country, do not require that the orders be placed from outside Arizona or be placed by a non-resident.

- l. Arizona lottery tickets.
- m. Stocks and Bonds.
- n. The sale of certain machinery or equipment if it is used directly in manufacturing, processing, agriculture, job printing, mining, producing and transmitting electrical power or research and development. Similar items sold to airlines, railroads, oil and gas companies, or telephone companies are also exempt. This includes repair and replacement parts.
- o. The sale of building materials to a contractor for incorporation into real property if a prime contractor is subject to transaction privilege tax under the prime contracting classification on the project. You must have a statement from the

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contractor indicating that the items purchased will be used to complete a contract for a building, a structure, etc. Supplies that do not become physically incorporated into the structure do not qualify for this exemption. You also must have the customer's transaction privilege tax license number, business name and address.

- p. Refunds on returned merchandise may be deducted from taxable gross income.
- q. Precious metal if its value is determined by its content and not its form. Also, sales of coins used as a form of money are exempt. However, sales of jewelry (including jewelry which is comprised of collectible coins) are taxable.
- r. Sales in interstate or foreign commerce if taxation is prohibited by the United States or Arizona Constitutions.
- s. The sale of motor vehicles to:
 - 1. A nonresident of this state whose state of residency does not allow a corresponding use tax exemption. The nonresident must secure a Special 90-Day Nonresident Registration Permit from the Arizona Department of Transportation.
 - 2. An enrolled member of an Indian tribe who resides on the reservation of that tribe.
- t. The sale of publications by this state to encourage tourist travel.
- u. Tangible personal property purchased by a non-profit, charitable organization, that qualifies under 501(c)(3) of the United States Internal Revenue Code and that uses the property exclusively in programs for mentally or physically handicapped persons if the programs are exclusively for training, job placement, rehabilitation, or testing.
- v. Textbooks, sold by a bookstore, that are required by any state university or community college.

10. Sales to the U.S. Government

Retail sales to the U.S. Government are taxable at one-half the regular tax rate. Sales of products directly to the U.S. Government by a manufacturer, modifier, assembler or repairer of such products are not taxable. Sales made to the state, cities, counties or other political subdivisions are taxable.

11. Sales to Native Americans

Sales to a tribe, or an enrolled member of the tribe, if the order originates from that tribe's reservation, delivery is made to that tribe's reservation, and payment is received from the reservation.

12. Specific Transaction Privilege Tax Exemptions

- a. Retail sales by a non-profit organization operated exclusively for charitable purposes are not taxable if the organization is recognized by the Internal Revenue Service as an IRC §501(c)(3) non-profit, charitable organization.
- b. Retail sales by non-profit organizations either associated with a national touring professional golf association, a major league baseball team, or the sponsoring, conducting and operating of a rodeo that primarily features farm and ranch animals, are exempt unless part of the organization's net earnings benefit any private shareholder or individual.

FOR ADDITIONAL INFORMATION:

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